THE PUBLIC DEBT OF GREAT BRITAIN.

BY HAROLD COX.

THE public debt of the United Kingdom consists of two quite distinct portions, the National Debt and the Local Debt. The former has been incurred by the nation as a whole and is a charge upon the national, or, in the more common phrase, the "imperial," revenue. The latter represents the separate borrowings of many hundreds of different local authorities, and for this debt the Imperial Government has only a remote responsibility. Each locality must bear the burden of its own local debt, and the Imperial Government would be very chary of offering assistance even in the case of threatened bankruptcy. Of the two burdens, the National Debt is by far the larger, but till recently was being rapidly diminished. The Local Debt, on the other hand, though it is at present just under one-half of the National Debt, is growing at a rate which alarms many observers. There is, however, this very important and consoling feature about the growth of local indebtedness in the United Kingdom, that practically the whole of the money borrowed has been spent on public works of a useful and, in most cases, of a durable character. In return for the £300,000,000 borrowed by local authorities in Great Britain and Ireland, the nation possesses a splendid property, in the shape of municipal water works, sewer works, gas works, harbors, capacious and often handsome school buildings, municipal offices, public libraries, museums, picture galleries, parks and pleasure grounds. It possesses also, although in this case the pride of possession is somewhat diluted, a large number of gigantic asylums for the insane, and a larger number of solid, if unattractive, buildings miscalled "workhouses," which might more accurately be described as resthouses for the reception of the destitute poor. All this the local authorities can show for their debt. The National Debt, on the other hand,

has been incurred mainly in order to meet expenditure upon war, and there now remains nothing to show for it—except the British Empire.

It is convenient, as well as obvious, to deal first with the National Debt. In its present form, that debt has a continuous history of over two hundred years. Its beginning can be traced to a breach of faith by Charles II. Before that event, English monarchs were undoubtedly familiar with the practice of borrowing, but they only borrowed for short terms, generally a few months or perhaps a year, and they always paid back. The history of these earlier borrowings is so full of interest that it may be worth while to dwell for a few moments upon the subject.*

In essence, these borrowings by the earlier kings of England were only anticipations of current revenue; the very form in which the loan was contracted is incidental evidence of that fact. From the time of the Norman Conquest, it was the practice of the Exchequer to acknowledge the receipt of revenue by means of a wooden tally. A tally (French, *taillé*) is a stick cleft down the middle and cut across the cleavage with a series of notches. One half or side of the cleft stick is handed over to the payer of the money, and the other is retained by the receiver. The system forms a perfect check on receipts; for, in case of dispute, all that is needed is to bring the two halves of the stick together and see that the notches coincide. The present writer saw such tallies in daily use, a few years ago, in a baker's shop in the capital of Normandy. As evidence of their recent use by unlettered people in England, it may be mentioned that, in Kentish hop gardens, the man who keeps the books and checks the earnings of each picker is still called the "tally man." The official use of tallies in the English Exchequer continued down to 1824. Ten years later, a care-taker in the buildings where these now useless bits of wood were stored, was instructed to get rid of them by burning them in ordinary fire-grates. He heaped on too many at once, and the Houses of Parliament were burnt to the ground.

All this about tallies is to lead up to the point, that the early

*A mass of interesting and most valuable information on this subject will be found in Parliamentary papers 443, of 1858, and 366, of 1869. Detailed information with regard to the early history of the funded debt, will be found clearly arranged in tabular form in paper C. 9010 (1898), and similar information with regard to the later history of the debt will be found in paper C. 6539 (1891). The latest official information with regard to the existing debt, is contained in paper Cd. 350, of 1900, and in the Finance Accounts of the United Kingdom, paper 241, of 1900.

form of royal or government borrowing in England was by "tallies of loan." An Exchequer tally, as already seen, was properly an acknowledgment of money paid into the Exchequer on account of revenue; and so, by a natural extension, when money was advanced to the king, to help him to carry on until the revenue came in, the lender received a "tally of loan," which was an acknowledgment of the money lent. A further development took place somewhat later. At periods when no one was willing to lend money, and when the treasury was empty, the difficulty was surmounted by paying the creditors of the Crown with "tallies of anticipation" instead of cash. Tallies of this class were really equivalent to bills drawn upon the Exchequer in anticipation of revenue, and were presented for payment as soon as the revenue came in. Such tallies were entered in the Exchequer-books, as if their equivalent in money had actually been lent to the Exchequer by the man who had accepted the tally, and they were, therefore, often described as "tallies of fictitious loan." To modern ears it will sound strange to add that money advanced on tallies of loan originally bore no interest, and that in the same way tallies of anticipation were accepted without discount. There is, for example, an interesting record, in the Exchequer Rolls of the fourteenth century, of the repayment to Elizabeth de Vaux, on June 5th, 1353, of the exact sum of ten marks, which she had advanced, upon tally of loan, on November 14th, 1352. This absence of interest was due rather to religious than to fiscal considerations. Throughout the Middle Ages the Christian Church condemned the taking of interest upon money as immoral, as the Mohammedan Church does to this day; and it was not until late in the seventeenth century that interest began to be paid upon loans to the government. Yet loans were frequent, and often on less reliable security than that of an exchequer tally. Thus, the famous Dick Whittington, thrice Lord Mayor of London, lent Henry V. large sums of money on a mere verbal promise to pay. Other municipal magnates were less confiding; for the same King had to pledge his "great collar garnished with rubies and sapphires and pearls," before he could get a loan of £500 out of the Mayor and Corporation of Coventry. His son redeemed the pledge.

In all these cases, the money was borrowed by the King himself on the security of his hereditary revenues, or on such per-

sonal pledge as he could offer. But, in the sixteenth century, Parliament began cautiously to recognize its responsibility for these temporary loans, provided that the money had been spent in the public service. With that recognition, the idea of national, as distinct from royal, indebtedness begins; but still another hundred years elapsed before any permanent debt was contracted.

The first case of interest being paid on public loans was in the year of the Restoration of Charles II. (1660), when an Act of Parliament was passed declaring that: "Any person lending £100 or a greater summe shall doe very good and acceptable service and shall receive interest at 6 per cent."

Four years later, Parliament took another leap forward in the art of borrowing, by providing that the warrants for the payment of principal should be assignable, and consequently negotiable. This was not merely an advantage to the Government, by enabling it to borrow with greater ease, but it was also a very great public convenience. In order to extend this convenience, an Act was passed three years later (1667) making all treasury warrants assignable. Every creditor of the Crown was thus able to get from a banker, or other moneyed man, immediate cash in exchange for any tally of anticipation, or other warrant for payment, which he had in his possession. The moneyed men to whom most resort was made for this purpose were the goldsmiths of Lombard street. The system worked admirably for some five years; till Charles, in 1672, by royal proclamation, suddenly suspended payment for one year on all assigned warrants, offering his creditors, instead, interest at six per cent. The sum involved was £1,328,526; and it is needless to say that the suspension of payment of such a relatively large sum entailed the bankruptcy of numbers of previously prosperous houses. The suspension was renewed year by year; but, for twelve years, the King had at least the honesty to pay the promised interest with punctuality. Then that, too, was stopped. In the vain hope of redress, the unfortunate goldsmiths appealed to the courts. It took them fourteen years to get a final judgment in their favor; and then Parliament at once intervened (1699) to compel a compromise which was practically a confiscation. Nothing was allowed for fifteen years' arrears of interest, and the original principal and interest were both halved. The net result was that the goldsmiths, or their

representatives, who were legally entitled to about £4,000,000, received instead a perpetual annuity of £39,855, which the Crown could at any time cancel by the payment of the capital sum of £664,263. That capital sum, if we look to its origin, may fairly be described as the oldest item in the existing debt of the United Kingdom.

But, while Parliament was haggling over this item, other debts had been incurred. When the last of the Stuarts fled the country, in 1688, he left behind him a floating debt of £84,000, secured on tallies of loan. William III. borrowed far larger sums, on similar security, to meet the heavy expenditure of his Continental wars, and he also issued large quantities of tallies of anticipation or fictitious loan. In a very short time, it was found that the revenue was insufficient to meet these bills drawn upon it. Tallies fell to a heavy discount, and it became necessary to invent some new method of borrowing.

It was under these circumstances that, in 1693, the first "tontine" was tried. Without going into details, it is sufficient to say that, in principle, a tontine is a system of life annuities, so arranged that, as each annuitant dies, his share is divided among the surviving annuitants, the last survivor securing the whole. There were, however, in all the tontines that were tried numberless complications of age categories, and the like, that were intended to attract, but only confused, the public. Probably it was on this account that the tontine system never took root in England; though, curiously enough, English capitalists subscribed freely to the tontines launched in Ireland. The tontine of 1693, that should have brought in £1,000,000, only realized £108,000. The balance was raised by means of simple life annuities.

In the next year, 1694, the continued necessities of William of Orange compelled another new departure; and, for the first time in our history, a permanent loan was sanctioned by Parliament. The sum of £1,200,000 was borrowed by the Government from the subscribers to the capital of the newly founded Bank of England, who received in return a Charter of Incorporation and a perpetual annuity of £100,000 a year—£96,000 for interest on the loan at eight per cent., and £4,000 for the expenses of management. Four years later (1698), another great corporation, the New East India Company, came to the assistance of the Government, and lent £2,000,000, also as a permanent loan. A third

permanent loan was contracted, as explained in detail above, in order to meet the debt incurred by Charles II. to the goldsmiths of Lombard street.

Stress is laid on these three items, because they are the beginnings of the permanent debt. The essence of that debt is that the State is under no obligation to repay the principal sums borrowed. All that the State has agreed to do is to go on paying interest forever, or until such time as the principal may be repaid. On the other hand, in the case of such loans as were raised in early times on tallies of loan, and are raised in modern times by Treasury Bills, the State undertakes to repay the principal at a fixed date. The one form of loan may involve a burden on countless, unborn generations; the other is a transaction begun and ended within a few months. It has long been the custom in England to call the debt created by loans of the former class the "funded debt," because the interest is a permanent charge upon the taxes or funds of the State. In contradistinction, the word "unfunded" is used to describe the debt which consists of temporary loans or floating obligations. The process of converting temporary into permanent debt is known as "funding." Intermediate in character, and also in historical sequence, between these two classes of debt, are the loans secured on terminable annuities. In the case of a terminable annuity, the State undertakes to repay the capital, together with interest, in a series of annual instalments, usually spread over a considerable period.

To sum up in a sentence what has already been written:—We have seen that the practice of short loans or unfunded borrowings began far back in the thirteenth or fourteenth century; that terminable annuities had their origin, so far as England is concerned, in the First Tontine and the other life annuities of 1692; and that the funded debt began in 1694 with a loan of £1,200,000 from the Bank of England, followed by another loan from the New East India Company, and by the "funding" of the Goldsmiths' debt.

All these methods of borrowing have continued in use down to the present time; and interchanges between the different classes of debt have frequently been made, either to tempt the public or to suit the convenience of the Government. One of the most remarkable of these interchanges was the great funding transaction accomplished, with the aid of the South Sea Company, in the

early years of the eighteenth century. That Company was established in 1711, for the nominal purpose of trading in the South Seas. It actually did supply negroes for some years to the Spanish colonies; but its main business consisted in taking over large floating debts of the British Government and converting them into a capital stock. The Company, in fact, acted as middleman between the Government and its creditors. The original sum taken over in 1711 was £9,177,967, made up of all kinds of debts —including tradesmen's bills, arrears of wages to seamen, and a subsidy due to the Elector at Hanover. Arrears of interest and a cash advance to the Government soon brought this sum up to £10,000,000; and, a few years later, the Company further relieved the Government of a large number of terminable annuities and made an additional cash advance. So far, the transactions were straightforward and satisfactory to both parties. But in 1720 the company attempted a great *coup*—and failed. It offered to take over all the outstanding terminable annuities and many of the permanent annuities—valued together at over £26,000,000—and to convert them into a new stock. Capital at the time was plentiful in the country, and, as soon as the South Sea Company made this proposal, the Bank of England stepped in and offered to pay a handsome bonus to the Government for the privilege of being allowed to conduct the conversion. The two institutions bid against one another, until the South Sea Company ended by agreeing to pay to the Government, as a bonus, the impossible sum of £7,000,000. But the mere magnitude of the transaction had impressed the public mind, and the stock issued by the Company rose to a premium of 1,000 per cent. After a few months, the inevitable crash came, and the people who had been ruined appealed to Parliament for relief. As the Government had been largely responsible for the catastrophe, prompt relief was given. The directors of the company and other persons who had made fraudulent profits—including the Chancellor of the Exchequer himself—were compelled to disgorge, and at the same time the Government abandoned its claim to the promised £7,000,000. The conversion scheme, however, held good; and, when the accounts had been straightened out, the capital of the Company stood at £33,800,000, secured as a Government debt. In other words, this figure represented the net amount of Government debt converted or funded through the

medium of the South Sea Company during the period from 1711 to 1720. The South Sea debt—gradually reduced from time to time—remained a separate item in the national accounts until 1854, when Mr. Gladstone paid off the remnant of it, either in cash or consols.

The transactions between the Government and the Bank of England have been of a much more sober character. From time to time, the Bank has advanced large sums to the Government, and it has also rendered very important service by assisting in the issue of loans, and by undertaking the management of the debt, or portions of it. Exactly similar services have been rendered by the Bank of Ireland; and, at the present time, the management of the whole of the debt is divided between these two corporations. By far the larger amount is, of course, in the hands of the Bank of England. The payment for management is calculated at so much per million pounds of stock, and in the financial year ending March 31st, 1900, it amounted to £174,864. It is interesting to note that, in the same year, the Bank of England paid back to the Government about a thousand pounds more than this sum as part payment for the privilege of issuing bank notes.

Having now described, with some detail, the methods by which money was borrowed in the earlier years of the debt, it will be convenient to show, in round figures, how the debt was piled up by successive wars. The almost continuous war waged by William of Orange, as champion of Protestant Europe against Catholic Europe, cost England an addition of about £12,000,000 to her debt, besides expenditure out of revenue. The long war of the Spanish Succession, under Queen Anne, cost another £20,000,000 of debt. Wars with Spain, under George I. and George II., added £35,000,000 more. The Seven Years' War, 1756 to 1763, involved an addition of no less than £58,000,000 to the debt; and another £88,000,000 was added by the American War of Independence. But even these huge figures are small beside the enormous load of debt occasioned by the prolonged war with France in the closing years of the eighteenth century. At the end of that gigantic war, the last great struggle between England and France, the united debts of Great Britain and Ireland stood at the enormous figure of £902,000,000, involving an annual charge of £32,645,000.

That is the high water mark of the British National Debt. From 1815 down to the time when the heavy expenditures upon

the South African War began, there was a fairly steady reduction —the only important exceptions being, first, in the years 1836 and 1837, when £20,000,000 were borrowed to compensate the owners of slaves in British colonies, and, secondly, in the years 1855 and 1856, when the debt was increased by £35,000,000 on account of the Crimean War. At the close of the Crimean War the debt stood at £842,000,000, involving an annual charge of £25,942,000 for interest and management. By the year 1900 the capital had been reduced to £639,000,000 and the corresponding annual charge to £17,600,000. A year later, in consequence of the South African War, the capital had risen to £703,000,000.

Before giving the details of these figures, it is worth while to say a word about the methods by which the debt, so rapidly piled up in time of war, has been slowly reduced in time of peace. During the whole of the eighteenth century, the burden of the debt was very seriously felt, owing to the comparative poverty of the country; and, in the vain hope of securing an automatic reduction, Parliament created, as early as 1716, the first Sinking Fund. The principle of this sinking fund, known as Sir Robert Walpole's, was sound enough. Certain taxes were set aside for the service of the debt, and, after interest had been defrayed, the surplus was to be used for reducing the capital. The system, however, broke down, because, almost as soon as the sinking fund had been established with a comfortable margin for the reduction of debt, Parliament proceeded to create fresh debt on the security of that margin, and after a few years altogether ignored the purpose of the sinking fund and charged ordinary expenditure upon it. It was in consequence of this failure of Walpole's sinking fund that, in 1786, Pitt proposed a more elaborate system. On the theory that Parliament could not be trusted to reduce the debt of its own free action, a special body of commissioners was created and rendered independent of the annual money votes of the House of Commons. By a permanent statute, this body, known as the Commission for the Reduction of the National Debt, was endowed with an income of £1,000,000 a year—subsequently increased to £1,400,000 —chargeable upon the public revenue. The duty of the Commissioners was to apply the whole of this sum to the purchase of Government Stock, and to invest the dividends in the purchase of more stock. It was calculated that, in this way, by the magic of compound interest, the whole of the debt would, in a compara-

tively short time, pass into the hands of the Commissioners, when it could be cancelled.

It is almost superfluous to point out that the operation would have been a good deal simpler and more economical if each portion of the debt had been cancelled as soon as it was purchased by the Commissioners. But a far more serious defect lay in the fact that the system was only workable at a profit in times of peace and financial prosperity. So long as the Government was obliged to borrow with one hand, it was worse than useless to continue paying off debt with the other. The mere complication of accounts would mean some unnecessary expense, and, in addition, a heavy waste would result because the margin between the price at which new loans could be raised, and the price at which old loans could be cleared off, would be almost invariably against the Government. As one of the later critics of Pitt's Sinking Fund said, it compelled the Government to "sell new stock cheap in order to buy old stock dear." Yet this apparently obvious defect was so far from impressing the original supporters of Pitt's Sinking Fund that Parliament actually provided that, whenever a loan was raised for any purpose, one per cent. of the sum borrowed should be added to the Sinking Fund. In other words, the nation had to borrow £100 when £99 would have sufficed. It is a curious example of the simple folly that often guides the affairs of great nations, that Pitt's Sinking Fund, with slight modifications, lasted for forty-three years. In that interval, new debt to the amount of about £330,000,000 was created for the sole purpose of cancelling old debt. This futile operation is estimated to have involved a net loss to the country of over £40,000,000.

In 1828, a committee of the House of Commons categorically declared its faith in the elementary principle that no real reduction of debt is possible unless the revenue of the country exceeds the expenditure, and in 1829 statutory effect was given to the consequences of this axiom. The National Debt Commissioners were continued in existence; but, instead of a fixed income, they were only to receive the actual surplus of income over expenditure. The whole of this surplus, whatever it might be, was to be paid over to the Commissioners, and was to be devoted by them to the purchase of stock; and, as soon as each purchase was completed, the stock was to be cancelled. These provisions, with some

small differences of detail, are still in force, and the annual operation which they provide for is now known as "The Old Sinking Fund."

The expressed intention of Parliament in 1829 was that a regular surplus of about £3,000,000 a year should be maintained; but in practice this was not done. The country was more eager for the reduction of taxation than for the reduction of debt; and in the years immediately following the establishment of the Old Sinking Fund, the realized surplus was often even less than £1,000,000. Therefore, if this fund alone had been relied upon, the reduction of the debt would have been very small. Two devices have, however, been adopted during the present reign, for cheating Parliament into reducing the debt unconsciously.

The first of these is the conversion of perpetual into terminable annuities. As we have already seen, the practice of borrowing money on the security of terminable annuities, whether for life or for a fixed period, is almost contemporaneous with the establishment of the funded debt. The practice was continued throughout the eighteenth century, and sometimes was worked in combination with the creation of capital debt, subscribers to a permanent stock receiving, by way of bonus, a small terminable annuity, in addition to the guaranteed interest. In 1808, the further experiment was tried of asking the creditors of the Government to accept life annuities in exchange for stock. The experiment failed, because the tables of mortality had been badly calculated; but the practice was renewed at a later period on a sounder basis. Life annuities, based on reliable calculations, are now sold to the public through the agency of the Post Office, and the money received is handed over to the National Debt Commissioners for the purchase and cancelling of Government stock. Up to the year 1890, when the last Report was issued, stock to the amount of £55,000,000 had thus been cancelled in exchange for life annuities and, though annuitants are proverbially long lived, the State may already regard that amount of debt as practically wiped off.

The use of annuities for fixed periods, as a means of paying off debt, has had a somewhat similar history. In 1819, the public was first invited to convert its permanent stock into annuities for a limited period; but these annuities do not seem to have greatly attracted investors, and up to 1890 the stock cancelled on account

of fixed period annuities sold to the public was only about £20,000,000.

It was partly in consequence of the failure of the public to patronize this system that Mr. Gladstone, in 1863, introduced the artifice of compelling Government Departments to convert their stock into terminable annuities. Two Government Departments, the Post Office Savings Bank and the Court of Chancery, are large holders of Government Stock, which they have purchased on account of depositors or of suitors. Large lumps of this stock were cancelled by Mr. Gladstone, and the Departments received, in exchange, annuities for a term of years. The process has since been repeated several times. But the transaction is purely a paper one. The Government Departments in question do not want terminable annuities; they want a permanent stock; and, therefore, they are obliged each year to set aside, out of their terminable annuities, a sufficient sum to buy from the public enough stock to ultimately replace the stock cancelled. These annual purchases from the public represent the only real reduction of the debt, and it would obviously be simpler for the Government to leave the Savings Bank and the Court of Chancery alone, and buy the stock direct from the public and cancel it. The sole argument for the present elaborate procedure lies in the theory that Parliament is cozened into an unconscious reduction of the debt. The annuities granted to the Departments appear as a charge in the accounts which has to be met; whereas the setting aside of so much money each year for the frank reduction of debt might give rise to complaints.

But, if the average Member of Parliament is too foolish to see through such a transparent device, Chancellors of the Exchequer are not. Mr. Gladstone's scheme has gone the way of all other schemes for reducing the debt by means of a trick. These annuities, supposed to be sacred, have been treated by Mr. Gladstone's successors, and even by himself, with only lip reverence. If a Chancellor of the Exchequer has wanted money, he has not scrupled to convert these departmental annuities into annuities involving a reduced annual charge, and therefore running for a longer period; while, at the same time, he has always expressed in eloquent language his deep sense of the duty of paying off the debt as rapidly as possible. At the present time, it is doubtful whether anybody is deceived by

these departmental or paper annuities. The official accounts now frankly state how much of the total annuities represents expenditure on capital account, and how much stands for interest and management; and the Chancellor of the Exchequer takes as much credit to himself for the reduction annually effected by the annuities as he does for direct cancelling of debt. Whatever small advantage may possibly have resulted in the past from these paper transactions, it is safe to say that, at present, they are only of value to the clerks who are paid for working out the elaborate calculations involved.

A more effective method of compelling Parliament to make regular provision for the reduction of the debt was initiated by Sir Stafford Northcote in 1875. In view of the steadily increasing wealth of the country, Sir Stafford Northcote urged that Parliament could afford to spend at least as much every year on the service of the debt as was spent when the nation was considerably poorer. He pointed out that, up to 1860, the annual charge for the debt had not fallen below £28,000,000; and he proposed to go back to that figure and to make it a fixed annual charge. Out of this sum the interest and cost of management of the capital debt, and the charges for terminable annuities, were first to be defrayed; and the balance remaining over—known as the "New Sinking Fund"—was to be expended in buying up and cancelling debt. Under this scheme, it is clear that the debt would be reduced at a constantly accelerated rate; for, as stock was purchased and cancelled, the interest upon it would cease, and more money would be available for the purchase of more stock. To further guard the scheme, it was provided that, in the case of fresh borrowings of a temporary character, the fixed annual charge was to be increased to meet the extra debt, and this provision has been honorably adhered to. At the same time, the Old Sinking Fund was maintained, so that, in addition to whatever might be available out of the £28,000,000, any surplus of general income over expenditure would still go to reduce the debt.

On the whole, Sir Stafford Northcote's scheme has worked better than any other method tried for the reduction of the debt. Unfortunately, his successors have not all possessed his high ideal of the nation's duty to its posterity. In 1888, the permanent fixed charge was reduced to £26,000,000, and in 1890 to £25,000,000. By the budget of 1899, it was further reduced to £23,000,000,

and in the war budgets of 1900 and 1901 every variety of sinking fund went by the board.

Incidentally, recent events have shown that there is still considerable vagueness in the minds of official financiers with regard to the true character of a sinking fund. The present Chancellor of the Exchequer, in October, 1899, formally announced that on no account would he consent to suspend the sinking fund in order to meet the expenses of the South African war, which he then estimated at about £10,000,000. That determination—which only lasted to the following March—was as unjustifiable as was his reduction of the sinking fund in his peace budget in the spring of 1899. A sinking fund is essentially a peace-fund, a yearly expenditure in time of peace as an insurance against the cost of war. To continue this expenditure in time of war is to repeat the colossal blunder of Pitt's sinking fund. Not only is the suspension of the sinking fund in time of war legitimate, but it is the fulfilment of the very purpose for which the fund exists. On the other hand, the nation is entitled to complain bitterly of the way in which its permanent interests have been sacrificed for momentary gain by the financiers who in 1888, 1890 and 1899 wantonly cut down the provision made by Sir Stafford Northcote for the reduction of the debt. Had the fixed annual charge remained at the figure at which he settled it, the country would have had in hand, towards meeting the enormous cost of the South African war, a revenue of about £12,000,000, immediately available without extra taxation.

In addition to the reduction of debt effected by sinking funds and other deliberate methods, England has enjoyed the good fortune of several windfalls. Her creditors have, from time to time, died leaving no representatives, and the unclaimed stock and accumulated dividends, after a reasonable interval, have been devoted to the reduction of the debt. The same plan has been pursued with unclaimed funds in the Court of Chancery. Altogether stock to the amount of over £8,000,000 has been cancelled in this way.

Even more interesting, from the human side, is the very considerable sum that the State has received from donations and bequests, specially given for the reduction of the debt. The first of these gifts was in 1809, when a Mr. Burgis, of Isleworth, bequeathed £200 consols for the reduction of the National Debt.

Among later donors, Anna Maria Reynolds stands for nearly £60,000 given in different years, and John Ashton for £193,000. In 1829, a "Female Patriot" gave £6; while, some years later, Mr. William Pithy Booth gave his full name and the sum of six shillings and sixpence. Another curious donation is 38,500 francs (about £1,500) sent anonymously from Paris. These voluntary gifts have continued intermittently down to the present time, and stock to the value of no less than £1,020,000 has been cancelled by this means.

It would too greatly prolong this article to enter into details with regard to the successive stages by which the rate of interest on the public debt has been reduced to its present figure. It is clear that a conversion of debt from a high rate of interest to a lower rate cannot be effected without dishonesty, except at times when the credit of the country is good and capital is plentiful. Since Charles II.'s breach of faith above recorded, and the unfair settlement that followed it, the British Government has never played its creditors false. The numerous conversions of debt effected have always been voluntary, the creditors being given the option of accepting a lower rate of interest or of being paid off in cash. The last conversion was in 1888, when the enormous sum of £565,000,000, standing in various three per cent. stocks, was converted into one stock bearing interest at the rate of two and three-quarters per cent. till 1903, and subsequently two and a half per cent. until 1923, when it is redeemable at par. The annual saving of interest in 1888 by this conversion was £1,440,000.

Before presenting in tabular form a final statement of the debt as it now exists, it is necessary to explain that, while rapidly paying off its main debt, the British Government has of late years frequently raised temporary loans for special purposes. This process has been a good deal criticized, but it is fairly defensible. These loans are not charged upon the general debt account, but are met by special annual payments, spread over a short term of years. Thus, if the army wants new barracks on a large scale, the expenditure is spread over, say, ten years by raising a special loan, and the ten instalments of interest and repayment will each year be debited to army expenditure.

These special loans are quite distinct from the ordinary unfunded debt, which consists of Treasury Bills or Exchequer Bills or deficiency advances by the Bank of England. Such bills and

advances are only required because of the irregularity with which the revenue comes in at different seasons of the year, whereas most of the expenditure is continuous. In a word, the sole object of the present unfunded debt is to save the Government from the necessity of keeping an extravagantly large working balance.

With these explanations, the following table will probably be intelligible:

NATIONAL DEBT ON MARCH 31ST, 1900.

Funded Debt—		
Consols, 2¾% to 1903, then 2½%; redeemable 1923	£502,657,133	
Due to Banks of England and Ireland, 2¾%	13,645,869	
2¾ per cents redeemable 1905	4,635,991	
2½ per cents redeemable 1905	31,667,904	
		£552,606,897
Terminable Annuities—		
Held by the public	12,913,128	
Held by Post Office Savings Bank, etc	47,325,757	
		60,238,885
Unfunded Debt (Treasury Bills)		16,133,000
Lapsing Loans for special purposes		10,186,482
Total Gross Liabilities		£639,165,264

This table represents the British National Debt as it stood on March 31st, 1900, and it is interesting to observe that though the South African war had then been in progress for five months, the net increase to the debt as compared with the previous year was only about £4,000,000. Soon after the above date, however, a loan of £30,000,000 was raised, and parliamentary sanction was given to further borrowing. By March 31st, 1901, the debt had risen to £703,000,000, and it was then estimated that the effect of the war would be to increase the debt by a total of more than £100,000,000.

In addition to the actual liabilities tabulated above, the British Government has certain contingent liabilities, principally on account of various foreign or colonial debts guaranteed by Parliament. In most cases, there is no danger of these contingent liabilities ever becoming actual; and, in any case, the risk is covered many hundred times over by the marketable property possessed by the Government in the shape of the Suez Canal Shares bought by Lord Beaconsfield for £4,000,000 and now valued at £25,000,000; and in the shape of various loans to foreign powers; of a large amount of real estate; of valuable machinery and materials in dockyards and arsenals; of ships and guns and stores of ammunition. All these are items which a strict accountant would bring into the national balance sheet; but, as the British Govern-

ment has no immediate intention of going into liquidation, it is somewhat futile even to speculate as to the figure that the Royal Navy, for example, would fetch in the open market.

The true burden of the British debt is represented by the annual charge upon it. The actual figures in tabular form are:

DEBT CHARGE FOR YEAR ENDING MARCH 31ST, 1900.

	Interest.	Reduction of Capital.
Funded Debt	£15,242,192	£19,876
Terminable Annuities—		
Held by public	300,097	1,030,767
Held by Savings Bank, etc	1,208,532	4,751,094
Unfunded Debt—		
Treasury Bills	489,235	....
Lapsing Loans	184,918	336,129
Management	174,864	....
	£17,599,838	£6,137,866
Total Gross Charge	£23,737,704	

It will be observed that more than six millions sterling was expended in the reduction of the debt, although the British Government had already begun to borrow for the South African war. Part of this reduction, namely, that on terminable annuities held by the public and that on lapsing loans was inevitable, for a failure to reduce capital as well as pay interest would have involved, in the one case, a breach of faith with the public, in the other, the readjustment of some rather elaborate fiscal and parliamentary arrangements. The rest of the reduction was due to the Chancellor of the Exchequer's misconception of the nature of a sinking fund, to which reference has been made above. He recovered from this misconception a few days before the close of the financial year in question, and appears to have abandond the delusion that there is any merit in paying off debt with one hand while borrowing larger sums with the other.

In both the tables above the figures of the gross debt and the gross charge are given. But the British Government possesses one or two interest-bearing investments which ought properly to be brought into the account. We need not trouble ourselves with their capital value, which varies largely with the fluctuations of the market. The important point is that these investments, and notably the Suez Canal Shares, considerably reduce the annual burden of the debt. The figures appear under various heads in the published Finance Accounts of the United Kingdom, but the total for the year ending March 31st, 1900, may be taken at £837,834, for interest alone, apart from repay-

ments of capital. Thus the net charge on the British Exchequer for interest and management of debt in that year was only £16,762,000. If to this amount we add the sum which it was compulsory to spend on the reduction of capital, we find that the whole annual burden of the British debt was, in March, 1900, very little over £18,000,000.

Taking this figure, and adopting Dudley Baxter's calculations for the earlier years, the comparison works out as follows:

COMPARATIVE BURDEN OF THE NATIONAL DEBT AT DIFFERENT PERIODS.

	Annual charge per head of population. s.	d.
1763, End of Seven Years' War	9	7
1784, End of American War of Independence	14	2
1815, End of Napoleonic wars	34	8
1870, After prolonged peace	15	9
1900, At beginning of South African War	9	0

Needless to say, these figures do not tell the whole story, for the increase in the wealth of the country has made burdens which at the beginning of the century were terrible now appear light. The most accurate evidence of the growth of national wealth is furnished by the Income Tax returns. They show that, allowing for the difference of rate, the yield of the Income Tax has increased nearly threefold since 1815, partly through the growth in the size of large incomes, and still more through the increased number of moderate incomes. The improvement in the position of the working classes has been, at least, as great as that of the richer classes; and it is, therefore, safe to assume that the average income throughout the kingdom has nearly trebled in the last eighty-five years. As the above table shows that the charge of the debt per head is little more than one-fourth of what it then was, it is within the mark to say that the real burden of the National Debt in the last year of the nineteenth century was only *one-tenth* of what it was at the end of the Great War.

With this statement, it is possible to pass from the National Debt to the subject of local indebtedness. This latter debt, though made up of a multiplicity of items, is in reality of a very simple character. The total sum owing is roughly £300,000,000, or about half the National Debt. It is divided between England, Scotland and Ireland, as follows:

England and Wales	£252,133,000
Scotland	38,452,000
Ireland	10,548,000
	£301,133,000

The whole of this money has been borrowed for local improvements, generally of a permanent character. The following analysis for England and Wales will show the class of work on which the money has been spent:

PURPOSES ON WHICH LOAN MONEY HAS BEEN EXPENDED BY LOCAL AUTHORITIES IN ENGLAND AND WALES.

Workhouses, infirmaries and hospitals	£10,080,000
Lunatic asylums	4,792,000
Municipal buildings, including Assize Courts, Police Stations, Fire Stations, and Markets	13,188,000
Schools	26,921,000
Street improvements and bridges	34,557,000
Gas works	17,434,000
Electric lighting	3,112,000
Waterworks	46,261,000
Sewerage	26,057,000
Cemeteries	2,699,000
Parks, pleasure grounds, libraries, museums, public baths, etc.	7,885,000
Harbors and docks	33,859,000
Laborers' dwellings	4,609,000
Manchester Ship Canal*	5,128,000
Miscellaneous public improvements	15,551,000
	£252,133,000

By far the larger portion of the local debt throughout the kingdom has been borrowed on such security as the different local authorities are themselves able to offer to the public. How good that security is may be inferred from the fact that British Corporation stocks are quoted on the Stock Exchange at prices which only allow to investors a return of barely three per cent. on their capital. Corporation stocks are, in fact, regarded—with one or two insignificant exceptions—as second only to Consols as a safe investment.

But, in addition to the great municipal corporations, there are many smaller local authorities who, if they attempted to borrow on their own security, would have to pay an extravagant rate of interest. To assist these bodies, a system has been devised by which local borrowers are enabled to have the advantage of imperial credit.

The principle of State loans to local bodies, or even to private individuals, is well over a hundred years old. The earliest recorded instance appears at first sight somewhat quaint. In 1793, an Act of Parliament was passed authorizing the Government to lend money to "such persons as may be desirous to accept the same." This apparently wholesale offer was, however, accompanied by conditions that choked off the majority of would-be borrowers. The only object of Parliament, in fact,

* The Corporation of the City of Manchester has lent to the Ship Canal Company large sums of money on the security of the local taxation of the city.

was to assist substantial men of business at a moment of commercial panic. Interest was fixed at ten per cent., and good security was required. On these terms, loans to the amount of over £2,000,000 were taken up, and the accommodation doubtless helped greatly to stay the panic. The experiment was repeated on a smaller scale six years later, for the "relief of merchants trading between Liverpool and Lancaster," and again in 1811 for the "relief of commercial credit." In all these cases, the money lent was punctually repaid, with interest in full. A large loan was also made by the Government in 1795, for the relief of persons in the islands of Grenada and St. Vincent, and this, too, was fully repaid. On the other hand, several of the earlier public loans have had to be written off as bad debts; for example, £50,000 for the Welland Canal in Canada, £120,000 for the improvement of Leith Harbor in Scotland, and £1,370,000 for the construction of workhouses in Ireland.

Among the purposes for which State loans have been made to local bodies, the following may be mentioned: The construction of harbors, docks and piers; the construction of improved dwellings for the working classes; the building of schools, asylums and workhouses; the drainage of land, and within the last few years advances to Irish tenants to enable them to buy the freehold of their farms.

In all these cases, down to the year 1887, the Government was the actual lender of the money, borrowing with one hand from the public, and lending with the other to local bodies and private individuals. In 1887, an improved system was devised. In order to simplify the public accounts, the management of these local loans was detached from the direct operations of the Government, and a separate Local Loans Fund was created. This fund is managed by that conveniently neutral body, the National Debt Commission. The Commissioners raise money by issuing from time to time a separate stock, known as the Local Loans Stock. The amount of this stock now outstanding is a little over £38,000,000. It is a three per cent. stock redeemable in 1912, and it was quoted in January, 1901, at 98 to 99. The Imperial Government guarantees the payment of interest. With the money thus raised, the National Debt Commissioners make loans to local authorities on terms approved by the Treasury. In other words, the National Debt Commissioners, in this respect, act as middlemen between the smaller

local bodies and the public; and, having the guarantee of the Imperial Government behind them, they are able to borrow, and therefore to lend, on very favorable terms. The total amount of their outstanding loans is a little over £39,000,000, or about one-eighth of the local debt of the United Kingdom.

It will be convenient to append a condensed table showing the whole operation of the system of State loans or State-guaranteed loans, including, of course, the loans made out of the Local Loans Fund. The statement only deals with capital advances and repayments, no calculation being made of the loss to the State for unpaid interest.

GOVERNMENT LOANS TO LOCAL BODIES.

From 1793 to 1898.

Localities of Borrowers.	Advanced to Borrowers.	Repaid by Borrowers.	Remitted.	Outstanding.
	£	£	£	£
England and Wales..........	63,100,000	42,900,000	500,000	19,700,000
Scotland	10,300,000	6,700,000	400,000	3,200,000
Ireland	55,900,000	29,100,000	10,500,000	16,300,000
Colonial	3,700,000	2,700,000	900,000	100,000
Totals	133,000,000	81,400,000	12,300,000	39,300,000

Practically, the whole of the local debt of the United Kingdom has been incurred within the last sixty or seventy years, and the larger portion of it within the last twenty or thirty. It still continues to grow rapidly, although Parliament has made provision for compelling local authorities to pay off gradually each loan raised. The excuse of the local authorities for raising fresh loans is always the same, that it is unfair to throw upon the existing body of ratepayers the whole cost of improvements that may last for several generations. That argument might serve if the loans were raised only for short periods of ten or twelve years; but, when the periods are thirty, or even as long as sixty years, it is extremely doubtful whether posterity gets any equivalent return for the burden imposed upon it. New inventions and changes of fashion destroy the value of capital improvements even more rapidly than the hand of time, and it is only necessary to compare the large sum spent out of loans by municipal authorities in England on gas lighting, with the small sum spent on electric lighting, to realize the improvidence of municipal borrowing on long terms.

The practical difficulty in the way of diminishing local indebtedness is the objection of the local ratepayer to bearing fresh taxation. That objection mainly arises from the system that prevails in England of levying the whole of the "rates," or

local taxes, upon the occupiers of land or houses. Ultimately, there can be no doubt that the burden of any regular charge on fixed property falls not on the occupier, but on the owner of the property; but the average occupier—especially in districts where rents as well as rates are rising—cannot be convinced that, if he paid no rates, he would have to pay more rent, and that, consequently, the rates are a deduction from his landlord's income and not from his own. This want of economic perception on the part of the average ratepayer is, however, more intelligible than the refusal of Parliament to amend the law, so as to make the apparent incidence of the tax coincide with its real incidence. Such refusal is the less excusable, because an admirable solution of the problem already exists in what is known as Schedule A of the Imperial Income Tax—a tax upon fixed property, levied in so scientific a manner as to compel every person interested in any piece of property to pay in exact proportion to his interest. This tax is levied at a trifling cost to the State, and is an almost unique example of a direct tax which gives rise to no complaint from the taxpayer. If this imperial model were copied in the system of local taxation, and if at the same time some provision were made for taxing personalty, as well as realty, for local purposes, there is every reason to believe that local authorities would begin to reduce their present excessive debt.

HAROLD COX.